

EXHIBIT 10



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

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TO: Kerry Weems
 Acting Administrator
 Centers for Medicare & Medicaid Services

FROM: Daniel R. Levinson
 Inspector General

Daniel R. Levinson

SUBJECT: Review of the Relationship Between Medicare Part D Payments to Local, Community Pharmacies and the Pharmacies' Drug Acquisition Costs
 (A-06-07-00107)

The attached final report presents the results of our review of the relationship between Medicare Part D payments to local, community pharmacies and the pharmacies' drug acquisition costs. We conducted this review at the request of 33 Senators.

Under Medicare Part D, the Centers for Medicare & Medicaid Services (CMS) contracts with Part D sponsors to offer prescription drug benefits to eligible individuals. Pharmacies contract with these sponsors to obtain Part D reimbursement for prescription drugs dispensed to individuals enrolled in Part D plans. The sponsors pay pharmacies a rate for ingredient costs (i.e., drug acquisition costs), usually a published average wholesale price of the drug minus some percentage, as well as a dispensing fee.

Our objectives were to (1) analyze the relationship between Medicare Part D payments, excluding dispensing fees, to local, community pharmacies and the pharmacies' drug acquisition costs and (2) estimate Part D dispensing fees and compare them with Medicaid dispensing fees.

Medicare Part D payments, excluding dispensing fees, to local, community pharmacies exceeded the pharmacies' drug acquisition costs by an estimated 18.1 percent when our analysis included rebates that drug wholesalers paid to pharmacies. Excluding rebates, Part D payments exceeded drug acquisition costs by an estimated 17.3 percent. The estimated difference between Part D payments and drug acquisition costs was \$9.13 per prescription including rebates and \$8.78 excluding rebates.

The estimated average Medicare Part D dispensing fee paid to local, community pharmacies was \$2.27 per prescription, about \$2 less than the average Medicaid dispensing fee.

Page 2 – Kerry Weems

We recommend that Congress and CMS consider the results of our review, including the data provided, in any deliberations regarding Medicare Part D reimbursement.

In its written comments on our draft report, CMS concurred with our recommendation.

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Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov. Please refer to report number A-06-07-00107 in all correspondence.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF THE RELATIONSHIP BETWEEN MEDICARE PART D PAYMENTS TO LOCAL, COMMUNITY PHARMACIES AND THE PHARMACIES' DRUG ACQUISITION COSTS



Daniel R. Levinson
Inspector General

January 2008
A-06-07-00107

Office of Inspector General

<http://oig.hhs.gov>

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The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Title I of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established the Medicare Part D prescription drug program. Under Part D, which began January 1, 2006, individuals entitled to benefits under Part A or enrolled in Part B may obtain drug coverage.

The Centers for Medicare & Medicaid Services (CMS), which administers Medicare, contracts with Part D sponsors to offer prescription drug benefits to eligible individuals. Pharmacies contract with these sponsors to obtain Part D reimbursement for prescription drugs dispensed to individuals enrolled in Part D plans. The sponsors pay pharmacies a rate for ingredient costs (i.e., drug acquisition costs), usually a published average wholesale price of the drug minus some percentage, as well as a dispensing fee.

In a letter dated June 6, 2006, 33 Senators requested that we analyze three issues related to local, community pharmacies' participation in the Medicare Part D program: network adequacy, contracting, and reimbursement. This report, which addresses the reimbursement aspect of the request, is based on our reviews of Part D payments and drug acquisition costs at 100 statistically selected pharmacies in September 2006.

OBJECTIVES

Our objectives were to (1) analyze the relationship between Medicare Part D payments, excluding dispensing fees, to local, community pharmacies and the pharmacies' drug acquisition costs and (2) estimate Part D dispensing fees and compare them with Medicaid dispensing fees.

SUMMARY OF RESULTS

Medicare Part D payments, excluding dispensing fees, to local, community pharmacies exceeded the pharmacies' drug acquisition costs by an estimated 18.1 percent when our analysis included rebates that drug wholesalers paid to pharmacies. Excluding rebates, Part D payments exceeded drug acquisition costs by an estimated 17.3 percent. The estimated difference between Part D payments and drug acquisition costs was \$9.13 per prescription including rebates and \$8.78 excluding rebates. Our analyses also found that, including rebates:

- Payments to pharmacies that were members of group purchasing organizations exceeded drug acquisition costs by an estimated 18.3 percent, compared with 17.7 percent for nonmember pharmacies. Member pharmacies received rebates on more drugs that were common to both member and nonmember pharmacies than did nonmember pharmacies.
- Payments to rural pharmacies exceeded drug acquisition costs by an estimated 18.9 percent, compared with 17.3 percent for nonrural pharmacies. The percentage difference appears to be related to the mix of generic and brand-name drugs dispensed rather than a difference in Part D payment rates. Rural pharmacies filled more generic prescriptions than did nonrural pharmacies. The percentage difference between Part D

payments and drug acquisition costs was significantly higher for generic drugs than for brand-name drugs.

The estimated average Medicare Part D dispensing fee paid to local, community pharmacies was \$2.27 per prescription, about \$2 less than the average Medicaid dispensing fee.

RECOMMENDATION

We recommend that Congress and CMS consider the results of our review, including the data provided, in any deliberations regarding Medicare Part D reimbursement.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

In its written comments on our draft report, CMS concurred with our recommendation. The full text of CMS's comments is included as Appendix G.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
BACKGROUND	1
Senate Request Letter	1
Medicare Part D Reimbursement of Drugs.....	1
National Council for Prescription Drug Programs Pharmacy Database	2
National Drug Codes.....	2
First DataBank, Inc., Drug Database	2
OBJECTIVES, SCOPE, AND METHODOLOGY	3
Objectives	3
Scope and Methodology	3
RESULTS OF REVIEW	5
RELATIONSHIP BETWEEN PAYMENTS AND DRUG ACQUISITION COSTS	5
Comparison of Group Purchasing Organization Member and Nonmember Pharmacies	6
Comparison of Rural and Nonrural Pharmacies	7
DISPENSING FEES	8
Estimated Average Part D Dispensing Fees	8
Comparison of Part D and Medicaid Dispensing Fees	8
RECOMMENDATION.....	9
CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS	9
OFFICE OF INSPECTOR GENERAL RESPONSE	9
OTHER MATTER: DISPENSING COSTS.....	10
SELECTED PHARMACIES' ESTIMATES	10
RECENT STUDIES.....	10
CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS	11
OFFICE OF INSPECTOR GENERAL RESPONSE	11

APPENDIXES

A – SAMPLE DESCRIPTION

B – PROJECTION RESULTS

C – PERCENTAGE DIFFERENCE BETWEEN PART D PAYMENTS AND DRUG ACQUISITION COSTS FOR EACH SELECTED PHARMACY

D – AVERAGE DOLLAR DIFFERENCE BETWEEN PART D PAYMENTS AND DRUG ACQUISITION COSTS PER PRESCRIPTION FOR EACH SELECTED PHARMACY

E – BREAKDOWN OF PRESCRIPTIONS ANALYZED

F – SELECTED PHARMACIES’ AVERAGE PART D DISPENSING FEES

G – CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

INTRODUCTION

BACKGROUND

Senate Request Letter

In a letter dated June 6, 2006, 33 Senators requested that we analyze three issues related to local, community pharmacies' participation in the Medicare Part D program: network adequacy, contracting, and reimbursement. With respect to reimbursement, the Senators requested that we analyze reimbursement from Medicare prescription drug plans to local, community pharmacies relative to the pharmacies' costs of acquiring and dispensing prescription drugs.¹ Additionally, the Senators stated: "We are also concerned about the sufficiency of reimbursement that local, community pharmacies receive from Medicare prescription drug plans. Pharmacists have informed us that in many cases, reimbursements fall well below their costs, which will undermine the long-term viability of local pharmacies and the MMA [Medicare Prescription Drug, Improvement, and Modernization Act] goal of ensuring beneficiaries' access to them."

This report addresses the reimbursement aspect of the request. We have issued a separate report addressing network adequacy (OEI-05-06-00320), and we will address contracting in two upcoming reports.

Medicare Part D Reimbursement of Drugs

Title I of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 significantly expanded the Medicare program set forth in Title 18 of the Social Security Act by establishing the Medicare Part D prescription drug program. Under Part D, which began January 1, 2006, individuals entitled to benefits under Part A or enrolled in Part B may obtain drug coverage. Covered drugs include drugs and biological products dispensed by prescription, as well as insulin and supplies associated with insulin injection.²

Unlike Parts A and B of the Medicare program, under which Medicare acts as the payer and insurer and generally pays on a fee-for-service basis, the prescription drug benefit is based on a private market model. The Centers for Medicare & Medicaid Services (CMS) contracts with prescription drug plans and Medicare Advantage plans, which then act as the payers and insurers for prescription drug benefits. CMS refers to these private entities as Part D sponsors. Retail pharmacies contract with Part D sponsors to obtain reimbursement for prescription drugs dispensed to Part D beneficiaries. The sponsors pay pharmacies a rate for ingredient costs (i.e., drug acquisition costs), usually a published average wholesale price of the drug minus some percentage, as well as a dispensing fee. Dispensing fees help pharmacies cover the costs of filling prescriptions. According to a recent study, dispensing costs could include such costs as

¹We defined local, community pharmacies as independent retail or franchise retail pharmacies for this review.

²Title 18 of the Social Security Act, sections 1860D-1(a)(2) and (3)(A) and 1860D-2(e)(1)(A) and (B).

payroll for prescription department employees and facility costs (e.g., rent, utilities, and maintenance costs).³

National Council for Prescription Drug Programs Pharmacy Database

The National Council for Prescription Drug Programs, Inc. (NCPDP), maintains a database of licensed pharmacies. As of October 2, 2006, the NCPDP Pharmacy Database contained 59,848 retail pharmacies in the United States and Puerto Rico classified as chain, independent, or franchise. As defined by NCPDP, a chain pharmacy is part of a group of four or more pharmacies under common ownership; an independent pharmacy is part of a group of three or fewer pharmacies under common ownership; and a franchise pharmacy is independently owned but has a franchise agreement with another company to receive marketing, training, and/or other support.⁴ ⁵

National Drug Codes

The Drug Listing Act of 1972 requires registered drug establishments to provide the Food and Drug Administration with a list of all drugs manufactured, prepared, propagated, compounded, or processed for commercial distribution.⁶ Drug establishments identify and report drugs using a unique, three-segment number called the National Drug Code (NDC), which is a universal product identifier for drugs for human use. The first segment, the labeler code, identifies the labeler, which is any firm that manufactures or distributes (under its own name) the drug. The second segment, the product code, identifies a specific strength, dosage form, and formulation for a particular labeler. The third segment, the package code, identifies the package size and type.

First DataBank, Inc., Drug Database

The National Drug Data File Plus™, maintained by First DataBank, Inc., includes descriptive information for all drugs approved by the Food and Drug Administration. The database contains, by NDC, such information as whether a drug is prescribed or purchased over the counter, whether a drug is brand name or generic, a product's package size, and the number of packages in a case. Additionally, one data field contains the clinical formulation identification, which is a six-digit number used to aggregate drugs that share like ingredient sets, strength, dosage form, and route of administration (e.g., oral or injection) but are marketed by multiple manufacturers. Each like product receives the same identification number.

³Grant Thornton LLP, “National Study To Determine the Cost of Dispensing Prescriptions in Community Retail Pharmacies.” Available online at <http://www.alphanet.org>. Accessed on May 14, 2007.

⁴“Pharmacy Update.” Available online at http://www.ncpdp.org/provider_update.asp. Accessed on July 24, 2007.

⁵According to the National Association of Chain Drug Stores, chain drugstores filled 70.9 percent of the 3.42 billion prescriptions filled in 2006, independent pharmacies filled 21.1 percent, and franchise pharmacies filled 1.2 percent. Mail-order pharmacies accounted for the remaining prescriptions.

⁶This requirement is codified at 21 U.S.C. § 360(j).

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to (1) analyze the relationship between Medicare Part D payments, excluding dispensing fees, to local, community pharmacies and the pharmacies' drug acquisition costs and (2) estimate Part D dispensing fees and compare them with Medicaid dispensing fees.

Scope and Methodology

Using the NCPDP Pharmacy Database, we identified 21,331 independent and franchise retail pharmacies in the United States and Puerto Rico. We included each pharmacy in our population four times to represent the 4 weeks⁷ in September 2006. The population thus consisted of 85,324 pharmacy weeks. We randomly selected 100 of these pharmacy weeks for review. (See Appendix A for a detailed description of our statistical sample design.)

The selected pharmacy weeks related to 99 pharmacies in 38 States and Puerto Rico.⁸ As Table 1 shows, these pharmacies received payments totaling \$1,114,845 for the drugs in 18,864 Part D prescriptions (3,344 unique NDCs) and \$42,959 in dispensing fees during the selected pharmacy weeks.

Table 1: Part D Payments to Selected Pharmacies

	Number of Prescriptions	Drug Payments	Dispensing Fee Payments
Brand-name drugs	8,024	\$895,194	\$16,874
Generic drugs	10,840	219,651	26,085
Total	18,864	\$1,114,845	\$42,959

Sixty-four of the selected pharmacies received rebates, and 66 belonged to GPOs.⁹ On average, according to estimates provided by officials at the selected pharmacies, the pharmacies filled more than 4,200 prescriptions each month, almost 32 percent of which were for Medicare Part D

⁷We defined a week as a 5-day span of weekdays, excluding Federal holidays.

⁸Although we reviewed 100 pharmacies, we excluded the results from 1 pharmacy because it received Part D payments for only two prescriptions during the selected week, and the percentage difference between Part D payments and drug acquisition costs was more than three times higher than that of the next highest selected pharmacy. As a result, all percentage and dollar estimates in this report are based on results at 99 pharmacies. However, the estimated number of pharmacies that received rebates and pharmacies that were members of group purchasing organizations (GPO) are based on results at all 100 pharmacies.

⁹As members of GPOs, small pharmacies receive the benefits of volume purchasing by leveraging their combined purchasing power to negotiate discount pricing from wholesalers or, in some cases, manufacturers. ("Follow the Pill: Understanding the U.S. Commercial Pharmaceutical Supply Chain," prepared for the Kaiser Family Foundation by The Health Strategies Consultancy, LLC. Available online at <http://www.kff.org/rxdrugs/7296.cfm>. Accessed on May 4, 2007.)

beneficiaries, and purchased about \$184,000 worth of drugs through one or more wholesalers.¹⁰ (Twenty-five of the pharmacies used only one wholesaler.)

From December 2006 to April 2007, we visited the selected pharmacies to obtain data necessary to compare the Medicare Part D payments that the pharmacies received with their drug acquisition costs. During each pharmacy audit, we:

- discussed Part D reimbursement and drug acquisition costs with pharmacy officials;
- reviewed reimbursement data (remittance advices) that Part D sponsors and other payers sent to the pharmacy, Part D claim data that the pharmacy submitted to Part D sponsors, and drug purchase invoices;
- determined Part D reimbursement for the week by matching remittance advices to Part D claim information from the pharmacy's computer system;
- determined drug acquisition costs by identifying drugs that the pharmacy purchased before the date each prescription was filled¹¹ and by matching the reimbursed drug to a purchase of (1) the same drug and package size, (2) the same drug with a different package size when we could not find a match under the first method (after obtaining the pharmacy's concurrence for these substitutions), or (3) a drug with the same clinical formulation identification when we could not find a match using the previous two methods (after obtaining the pharmacy's concurrence for these substitutions);
- calculated the difference between Part D reimbursement, excluding dispensing fees, and the pharmacy's drug acquisition costs, both including and excluding rebates, if applicable,¹²
- calculated the average Part D dispensing fees for all drugs, brand-name drugs, and generic drugs; and
- issued a separate report to the pharmacy describing the results of our analysis.

For this report, we used the calculations from the individual pharmacy audits to estimate the difference between Part D reimbursement and drug acquisition costs and the average Medicare dispensing fees across the population of local, community pharmacies. We also compared the calculations for (1) pharmacies that used GPOs versus those that did not and (2) rural versus nonrural pharmacies. To analyze the data on rural and nonrural pharmacies, we used a CMS file that classified ZIP Codes as rural, suburban, or urban based on population density. We grouped

¹⁰The average monthly prescriptions and Part D percentage were based on estimates provided by 97 pharmacies, while the average monthly drug purchase information was based on estimates provided by 98 pharmacies.

¹¹We used data for purchases on or after the prescription fill dates for 308 of the 18,864 prescriptions we analyzed (after obtaining pharmacy officials' concurrence).

¹²We did not verify the actual rebates received from drug wholesalers; instead, we relied on pharmacy officials' estimates.

the suburban and urban categories together in the nonrural category for estimation purposes. (See Appendix B for all statistical estimates in this report.) Using CMS data, we also calculated the average Medicaid dispensing fees paid by each State and the District of Columbia for comparison with Medicare Part D dispensing fees.

We did not determine each selected pharmacy's cost of dispensing drugs. The amount of work necessary to do so was prohibitive, and individual pharmacy cost structures vary substantially. Instead, we obtained cost estimates from the selected pharmacies and researched recent studies of dispensing costs.

Because our objectives did not require an understanding or assessment of the selected pharmacies' overall internal control structures, we did not perform such a review. We limited our review of internal controls to obtaining an understanding of how the pharmacies maintained Part D reimbursement and drug purchase data.

We conducted our review in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

Medicare Part D payments, excluding dispensing fees, to local, community pharmacies exceeded the pharmacies' drug acquisition costs by an estimated 18.1 percent when our analysis included rebates that drug wholesalers paid to pharmacies. Excluding rebates, Part D payments exceeded drug acquisition costs by an estimated 17.3 percent. The estimated difference between Part D payments and drug acquisition costs was \$9.13 per prescription including rebates and \$8.78 excluding rebates.

The estimated average Medicare Part D dispensing fee paid to local, community pharmacies was \$2.27 per prescription, about \$2 less than the average Medicaid dispensing fee.

RELATIONSHIP BETWEEN PAYMENTS AND DRUG ACQUISITION COSTS

All estimates in this section on the relationship between payments and drug acquisition costs exclude dispensing fees from Medicare Part D payments. We determined the percentage difference between Part D payments and drug acquisition costs for each selected pharmacy by subtracting drug acquisition costs from Part D payments and dividing by drug acquisition costs.

Including rebates in our analysis, Medicare Part D payments to local, community pharmacies were an estimated 18.1 percent higher than drug acquisition costs. For the selected pharmacies, Part D payments ranged from 1.9 percent to 55.1 percent higher than drug acquisition costs. (Based on the 64 selected pharmacies that received wholesaler rebates, we estimated that 13,652 of the 21,331 local, community pharmacies in our population received rebates, thus reducing their drug acquisition costs.) Excluding rebates from our analysis, Part D payments were an estimated 17.3 percent higher than drug acquisition costs. (See Appendix C for each selected pharmacy's percentage difference between Part D payments and drug acquisition costs.)

The Part D payment for each prescription exceeded drug acquisition costs by an estimated \$9.13 including rebates and \$8.78 excluding rebates. (See Appendix D for each selected pharmacy's average dollar difference per prescription.)

Table 2 provides the estimated percentage and dollar differences both including and excluding rebates.

Table 2: Estimated Difference Between Part D Payments and Drug Acquisition Costs

	Estimated Difference as a Percentage of Costs		Estimated Dollar Difference per Prescription	
	Including Rebates	Excluding Rebates	Including Rebates	Excluding Rebates
All drugs	18.1%	17.3%	\$9.13	\$8.78
Brand-name drugs	7.9%	7.6%	9.18	8.86
Generic drugs	73.3%	69.0%	9.12	8.77

The percentage difference between Part D payments and drug acquisition costs was more than nine times higher for generic drugs than for brand-name drugs. However, generic and brand-name drugs had similar per prescription dollar differences.

Pharmacies almost always acquired drugs for less than their reimbursement amounts. For the 18,864 Part D prescriptions we analyzed, payments were higher than drug acquisition costs for 18,245 prescriptions (96.7 percent) and equal to or less than drug acquisition costs for 619 prescriptions (3.3 percent).¹³ (Appendix E provides, for each selected pharmacy, the number of prescriptions analyzed, the number of prescriptions with Part D payments higher than drug acquisition costs, and the number of prescriptions with Part D payments equal to or below drug acquisition costs.)

Comparison of Group Purchasing Organization Member and Nonmember Pharmacies

Based on the 66 selected pharmacies that were members of GPOs, we estimated that 14,078 of the 21,331 pharmacies in our population were members of GPOs. Including rebates, Part D payments to GPO member pharmacies were an estimated 18.3 percent higher than drug acquisition costs, and payments to nonmember pharmacies were an estimated 17.7 percent higher. Table 3 presents the estimated percentage difference between Part D payments and drug acquisition costs for GPO members and nonmembers both including and excluding rebates.

¹³Payments were equal to drug acquisition costs for 9 prescriptions and less than drug acquisition costs for 610 prescriptions.

Table 3: Estimated Difference Between Part D Payments and Drug Acquisition Costs for GPO Members and Nonmembers

	GPO Members		Nonmembers	
	Including Rebates	Excluding Rebates	Including Rebates	Excluding Rebates
All drugs	18.3%	17.2%	17.7%	17.4%
Brand-name drugs	8.3%	8.0%	7.1%	6.8%
Generic drugs	73.7%	68.0%	72.6%	71.0%

The difference between GPO members and nonmembers appears to be related to the fact that members received rebates on more drugs. For 1,351 drugs common to both GPO members and nonmembers, we found that members received rebates on 78 percent of the drugs and that nonmembers received rebates on 52 percent.

Comparison of Rural and Nonrural Pharmacies

CMS classified 11,528 pharmacies in our population as rural and 9,785 pharmacies as nonrural.¹⁴ Including rebates, Part D payments to rural pharmacies were an estimated 18.9 percent higher than drug acquisition costs, and payments to nonrural pharmacies were an estimated 17.3 percent higher. Table 4 presents the estimated percentage difference between Part D payments and drug acquisition costs for rural and nonrural pharmacies both including and excluding rebates.

Table 4: Estimated Difference Between Part D Payments and Drug Acquisition Costs for Rural and Nonrural Pharmacies

	Rural Pharmacies		Nonrural Pharmacies	
	Including Rebates	Excluding Rebates	Including Rebates	Excluding Rebates
All drugs	18.9%	17.9%	17.3%	16.6%
Brand-name drugs	8.3%	7.9%	7.5%	7.3%
Generic drugs	71.2%	66.4%	75.3%	71.5%

The difference between rural and nonrural pharmacies appears to be related to the mix of generic and brand-name drugs dispensed rather than a difference in Part D payment rates. Payments to rural and nonrural pharmacies were nearly identical for 1,396 drugs common to both groups. Rural pharmacies, on the other hand, filled more generic prescriptions. Generic drugs accounted for 63 percent of the prescriptions filled by the selected rural pharmacies, compared with 52 percent of the prescriptions filled by nonrural pharmacies. As noted previously, the percentage difference between Part D payments and drug acquisition costs was significantly higher for generic drugs than for brand-name drugs.

¹⁴The CMS file that classified ZIP Codes as rural, urban, or suburban did not include classifications for 18 pharmacies in our population.

DISPENSING FEES

Estimated Average Part D Dispensing Fees

The estimated average Medicare Part D dispensing fee paid to local, community pharmacies for all drugs was \$2.27 per prescription. Table 5 presents the estimated average Part D dispensing fees, as well as the lowest and highest average fees paid to the selected pharmacies. (Appendix F presents the average Part D dispensing fee for each selected pharmacy.)

Table 5: Estimated Average Part D Dispensing Fees and Lowest and Highest Average Fees for the Selected Pharmacies

		Selected Pharmacies' Average Dispensing Fees		
	Number of Prescriptions Analyzed	Estimated Average Part D Dispensing Fee	Lowest	Highest
All drugs	18,864	\$2.27	\$1.40	\$4.84
Brand-name drugs	8,024	2.11	1.28	3.89
Generic drugs ¹⁵	10,840	2.36	1.38	5.41

Comparison of Part D and Medicaid Dispensing Fees

The average Medicaid dispensing fee paid during September 2006 was \$4.30 per prescription, which was \$2.03 more than the estimated average Part D dispensing fee of \$2.27.¹⁶ Table 6 compares the estimated average Medicare Part D dispensing fees with the average Medicaid dispensing fees.

Table 6: Comparison of Medicare Part D and Medicaid Dispensing Fees

	Estimated Average Part D Dispensing Fee	Average Medicaid Dispensing Fee	Difference
All drugs	\$2.27	\$4.30	\$2.03
Brand-name drugs	2.11	4.19	2.08
Generic drugs	2.36	4.42	2.06

¹⁵One Part D sponsor paid 31 selected pharmacies an enhanced dispensing fee that ranged from \$0.80 to \$1.80 per prescription, depending on the percentage of prescriptions filled using generic drugs. Of the 18,864 prescriptions we analyzed, only 911 were generic drug prescriptions eligible for this enhanced fee. We did not quantify the effect of the additional fee because it would have been minimal.

¹⁶We based the average Medicaid dispensing fee on dispensing fees paid by 49 States and the District of Columbia. We excluded one State because its data were not comparable to other States' data in that the State did not specifically identify dispensing fees paid to retail pharmacies.

Officials from the selected pharmacies voiced concerns related to dispensing fee payments for beneficiaries entitled to Medicare and eligible for Medicaid (dually eligible beneficiaries). Before the implementation of Medicare Part D, Medicaid covered prescription drugs dispensed to these beneficiaries; however, when Medicare Part D was implemented, dually eligible beneficiaries were automatically enrolled in Part D prescription drug plans. As a result, pharmacies received the lower Medicare dispensing fees for these individuals.

RECOMMENDATION

We recommend that Congress and CMS consider the results of our review, including the data provided, in any deliberations regarding Medicare Part D reimbursement.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

In its written comments on our draft report, CMS concurred with our recommendation and stated that our findings were generally consistent with its own expectations. CMS also stated that the following aspects of our methodology were unclear:

- how we applied pharmacy officials' rebate estimates to the audited Part D claims and how these estimates could affect the percentage differences between Part D payments and drug acquisition costs,
- how we determined the acquisition cost of a drug with the same clinical formulation identification as the drug for which the pharmacy billed Part D, and
- how we calculated average Part D dispensing fees.

OFFICE OF INSPECTOR GENERAL RESPONSE

We have clarified our methodology below:

- We applied pharmacy officials' rebate estimates to drug acquisition costs, not to Part D claims. We reduced each selected pharmacy's drug acquisition costs by its estimated rebate percentage. We relied on the information provided to us by pharmacy officials familiar with their pharmacies' rebate terms and did not verify the actual rebates received.
- When identifying drug acquisition costs, we tried to match those costs with the same drugs for which the pharmacy billed Part D; however, pharmacies sometimes substituted a like drug for the billed drug (i.e., a drug with the same clinical formulation identification but a different manufacturer). We were able to obtain the acquisition cost for the same drug billed to Part D for 90 percent of the analyzed prescriptions. For the remaining 10 percent, we obtained pharmacy officials' concurrence to use the acquisition cost of a drug with the same clinical formulation identification.
- We obtained data identifying the dispensing fees that Part D sponsors paid to the selected pharmacies from reimbursement data (remittance advices) or the contracts between the

pharmacies and the Part D sponsors. We calculated the average Part D dispensing fee for each selected pharmacy by totaling the dispensing fees paid by Part D sponsors and dividing these totals by the number of Part D prescriptions.

OTHER MATTER: DISPENSING COSTS

Although this report provides estimates of the percentage and per prescription dollar differences between Part D ingredient cost payments and drug acquisition costs, the pharmacies' incurred costs to dispense drugs would need to be factored into the calculation to derive the net difference between total Part D payments (i.e., ingredient cost payments plus dispensing fees) and total pharmacy costs (i.e., drug acquisition costs and dispensing costs, such as payroll for prescription department employees and facility costs). Following are the selected pharmacies' estimates of dispensing costs and the results of two recent studies.

SELECTED PHARMACIES' ESTIMATES

Of the 99 selected pharmacies, 69 pharmacies provided estimates of their costs to dispense prescription drugs based on various methods, including dividing total expenses by total prescriptions filled and using a formula created by a third-party contractor. The estimates ranged from \$3.50 to \$19 per prescription and averaged \$9.13. The remaining 30 selected pharmacies did not provide estimates of their dispensing costs.

Given the scope of our review, we did not ask pharmacy officials to provide documentation supporting their estimated dispensing costs. Therefore, we were unable to assess the accuracy of those estimates.

RECENT STUDIES

Two recent studies conducted on behalf of pharmacy associations both concluded that pharmacies' costs to dispense prescription drugs averaged about \$10.50 per prescription.

- Grant Thornton LLP conducted a study for the Coalition for Community Pharmacy Action¹⁷ and issued "National Study To Determine the Cost of Dispensing Prescriptions in Community Retail Pharmacies" in January 2007.¹⁸ During this study, Grant Thornton LLP analyzed 6 months of data from 23,152 pharmacies and computed an average dispensing cost of \$12.10. However, Grant Thornton LLP computed a weighted average dispensing cost of \$10.50 per prescription because of substantial variations in the number of prescriptions filled per pharmacy. According to the report, high-volume pharmacies had significantly lower dispensing costs per prescription than low-volume pharmacies.

¹⁷The coalition is an alliance between the National Association of Chain Drug Stores and the National Community Pharmacists Association (NCPA).

¹⁸Available online at <http://www.alphanet.org>. Accessed on May 14, 2007.

- The “2006 NCPA-Pfizer Digest”¹⁹ concluded that pharmacies’ average cost to dispense prescription drugs was \$10.53, \$1.29 more than the previous year’s estimate of \$9.24. According to the information in the digest, expenses increased as stores added new personnel; stayed open longer; and provided value-added services, such as educating patients about Medicare Part D.

We did not audit the results of these two studies.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

CMS said that its primary concern with our draft report was the inclusion of estimated dispensing costs provided by the selected pharmacies, as well as the calculated dispensing costs from two pharmacy association studies. CMS stated that these dispensing costs were potentially nonrepresentative and could obscure the ongoing Medicare Part D pharmacy debate. While acknowledging that the report stated that we had not reviewed the accuracy of the dispensing cost estimates or study results, CMS said that the statement would not prevent readers from relying on those data.

OFFICE OF INSPECTOR GENERAL RESPONSE

As explained above, the dispensing cost information provides a more complete picture of pharmacies’ operations. We included the information because we did not want readers to misinterpret the differences between Part D payments and drug acquisition costs presented in the report as representing the difference between total pharmacy reimbursement and total pharmacy costs. The dispensing cost information clarifies that our analysis did not account for all of the costs associated with dispensing prescription drugs.

¹⁹The “2006 NCPA-Pfizer Digest” is a summary of selected financial and demographic information for independent community pharmacies. Available for purchase online at <http://www.ncpanet.org>.

APPENDIXES

SAMPLE DESCRIPTION

AUDIT OBJECTIVES

Our objectives were to (1) analyze the relationship between Medicare Part D payments, excluding dispensing fees, to local, community pharmacies and the pharmacies' drug acquisition costs and (2) estimate Part D dispensing fees and compare them with Medicaid dispensing fees.

POPULATION

The sampling population consisted of the 21,331 independent and franchise retail pharmacies (local, community pharmacies) in the United States and Puerto Rico with National Council for Prescription Drug Programs, Inc. (NCPDP), provider numbers as of October 2, 2006. We included each pharmacy in our population four times to represent the 4 weeks in September 2006. As a result, the population size was 85,324 (21,331 x 4).¹

SAMPLING FRAME

The NCPDP Pharmacy Database included pharmacies in the U.S. territories of Guam and the Virgin Islands, as well as the Commonwealth of the Northern Mariana Islands. We removed the 42 independent retail pharmacies in these locations from our population. (No franchise retail pharmacies were shown in these locations.)

Additionally, we used a Centers for Medicare & Medicaid Services list of pharmacies that participated in Medicare Part D to identify pharmacies that did not participate. We removed the 1,260 nonparticipating pharmacies (1,257 independent retail pharmacies and 3 franchise retail pharmacies) from our population.

Each of the 21,331 local, community pharmacies appeared four times in the sampling frame, one time for each of the 4 pharmacy weeks in September 2006.

SAMPLE UNIT

The sample unit was a pharmacy week (a 5-day span of weekdays, excluding Federal holidays) of Medicare Part D payments. For each sampled pharmacy week, we obtained data related to every prescription drug reimbursed by Medicare Part D and the pharmacy's invoice price for each reimbursed drug. We calculated the percentage difference between the total Medicare Part D payments and the drug acquisition costs.

¹Our original population included 21,346 local, community pharmacies with 85,384 pharmacy weeks (21,346 x 4). However, we removed 15 pharmacies from the population for the reasons cited in the "Treatment of Missing Sample Items" section of this appendix.

SAMPLE DESIGN

We used a two-phase sample design. The first phase entailed selecting a random sample of 300 pharmacy weeks. Our survey work revealed that the payment cycles for third-party payers, including Part D sponsors, typically ranged from 15 to 45 days. As a result, some pharmacies might not have received a remittance advice with a Medicare Part D payment during a given week. We contacted the 300 pharmacies to determine whether they had received a remittance advice with a Medicare Part D payment during the selected pharmacy week. That helped ensure that we had 100 viable sample units by reducing the number of sample units that needed to be replaced because a pharmacy did not receive a Medicare Part D payment during the pharmacy week.

In the second phase, we selected a random subsample of 125 pharmacy weeks from the pharmacies we confirmed to have received Medicare Part D payments during the selected pharmacy weeks. (The first 100 were our initial sample units, and the remaining 25 were used for replacements when needed.)

SAMPLE SIZE

We selected 100 pharmacy weeks.

SOURCE OF RANDOM NUMBERS

We generated the random numbers using the Office of Inspector General, Office of Audit Services, RAT-STATS statistical sampling software.

METHOD OF SELECTING SAMPLE ITEMS

Each NCPDP provider number was replicated four times and assigned a numerical indicator from 1 to 4 signifying the 4 pharmacy weeks in September 2006. We numbered the resulting 85,324 sample items sequentially from 1 to 85,324 and generated 300 random numbers based on them.

We also generated 125 random numbers based on the sequential numbers of those pharmacies we confirmed to have received Medicare Part D payments during the selected pharmacy weeks.

CHARACTERISTICS TO BE MEASURED

We obtained from the sampled pharmacies (1) remittance advice data for the selected pharmacy week, (2) Medicare Part D claim data for prescription fill dates included in the remittance advice data, and (3) invoice data for at least 3 months before the earliest fill date of any Medicare Part D payments received during the pharmacy week. By matching common data elements from these three data sets (e.g., prescription number and prescription fill date), we calculated the total Medicare Part D payments for the pharmacy week and the associated drug acquisition costs. We used the total payments and acquisition costs to calculate the percentage difference between payments and costs.

TREATMENT OF MISSING SAMPLE ITEMS

If 1 of the initial 300 pharmacies we contacted was out of business; did not participate in Medicare Part D; or was not a local, community pharmacy, we removed the pharmacy week from the sample and all 4 pharmacy weeks for the pharmacy from the population. If one of these pharmacies did not receive a Medicare Part D payment during the selected pharmacy week but participated in Medicare Part D, we removed the pharmacy week from the sample but not from the population. We left all 4 pharmacy weeks in the population.

If 1 of the 100 pharmacies selected for a site visit had gone out of business between the date of initial contact to determine whether it had received a Medicare Part D payment during the selected pharmacy week and the date of our site visit, we replaced that pharmacy week with a spare from the subsample and removed all 4 pharmacy weeks for the pharmacy from our population. If 1 of the 100 pharmacies selected for a site visit could not produce all of the data necessary for our analysis, we replaced the pharmacy week with a spare from the subsample but left all 4 pharmacy weeks in the population.

ESTIMATION METHODOLOGY

We used the RAT-STATS variable appraisal program for simple random samples to estimate the differences between Medicare Part D payments and acquisition costs and to estimate average Part D dispensing fees. We used the RAT-STATS attribute appraisal program for simple random samples to estimate the number of pharmacies that received rebates and that were members of group purchasing organizations.

We estimated the sample mean along with the 90-percent two-sided confidence interval.

PROJECTION RESULTS

Variable Appraisal Description ¹	Mean	90-Percent Confidence Level			
		Precision Amount	Lower Limit	Upper Limit	
All pharmacies:					
Percentage difference between payments and costs including rebates					
All drugs	18.1%	1.3%	16.8%	19.4%	
Brand-name drugs	7.9	0.5	7.4	8.4	
Generic drugs	73.3	5.9	67.4	79.2	
Percentage difference between payments and costs excluding rebates					
All drugs	17.3	1.3	16.0	18.6	
Brand-name drugs	7.6	0.5	7.1	8.1	
Generic drugs	69.0	6.0	63.0	75.0	
All pharmacies per prescription:					
Dollar difference between payments and costs including rebates					
All drugs	\$9.13	\$1.05	\$8.08	\$10.18	
Brand-name drugs	9.18	1.26	7.92	10.44	
Generic drugs	9.12	1.13	7.94	10.25	
Dollar difference between payments and costs excluding rebates					
All drugs	8.78	1.03	7.75	9.81	
Brand-name drugs	8.86	1.25	7.61	10.11	
Generic drugs	8.77	1.13	7.64	9.90	
Group purchasing organization members:					
Percentage difference between payments and costs including rebates					
All drugs	18.3%	1.4%	16.9%	19.7%	
Brand-name drugs	8.3	0.5	7.8	8.8	
Generic drugs	73.7	7.7	66.0	81.4	
Percentage difference between payments and costs excluding rebates					
All drugs	17.2	1.4	15.8	18.6	
Brand-name drugs	8.0	0.5	7.5	8.5	
Generic drugs	68.0	7.9	60.1	75.9	

¹All variable appraisals in this appendix are based on the results at 99 pharmacies; all attribute appraisals are based on the results at 100 pharmacies.

Variable Appraisal Description	Mean	90-Percent Confidence Level			
		Precision Amount	Lower Limit	Upper Limit	
Group purchasing organization nonmembers:					
Percentage difference between payments and costs including rebates					
All drugs	17.7%	2.7%	15.0%	20.4%	
Brand-name drugs	7.1	1.0	6.1	8.1	
Generic drugs	72.6	9.4	63.2	82.0	
Percentage difference between payments and costs excluding rebates					
All drugs	17.4	2.8	14.6	20.2	
Brand-name drugs	6.8	1.0	5.8	7.8	
Generic drugs	71.0	9.2	61.8	80.2	
Rural pharmacies:					
Percentage difference between payments and costs including rebates					
All drugs	18.9%	1.5%	17.4%	20.4%	
Brand-name drugs	8.3	0.7	7.6	9.0	
Generic drugs	71.2	7.1	64.1	78.3	
Percentage difference between payments and costs excluding rebates					
All drugs	17.9	1.5	16.4	19.4	
Brand-name drugs	7.9	0.7	7.2	8.6	
Generic drugs	66.4	7.3	59.1	73.7	
Nonrural pharmacies:					
Percentage difference between payments and costs including rebates					
All drugs	17.3%	2.1%	15.2%	19.4%	
Brand-name drugs	7.5	0.7	6.8	8.2	
Generic drugs	75.3	9.6	65.7	84.9	
Percentage difference between payments and costs excluding rebates					
All drugs	16.6	2.1	14.5	18.7	
Brand-name drugs	7.3	0.7	6.6	8.0	
Generic drugs	71.5	9.6	61.9	81.1	

Variable Appraisal Description	Mean	90-Percent Confidence Level		
		Precision Amount	Lower Limit	Upper Limit

All pharmacies:**Part D dispensing fees**

All drugs	\$2.27	\$0.10	\$2.17	\$2.37
Brand-name drugs	2.11	0.10	2.01	2.21
Generic drugs	2.36	0.12	2.24	2.48

Attribute Appraisal Description ²	Characteristic of Interest	90-Percent Confidence Level	
		Lower Limit	Upper Limit
Pharmacies that received rebates			
Percentage	64.0%	55.371%	71.991%
Number	13,652	11,811	15,356
Pharmacies that did not receive rebates			
Percentage	36.0%	28.009%	44.629%
Number	7,679	5,975	9,520
Group purchasing organization members			
Percentage	66.0%	57.427%	73.844%
Number	14,078	12,250	15,752
Group purchasing organization nonmembers			
Percentage	34.0%	26.156%	42.573%
Number	7,253	5,579	9,081

²Because each pharmacy was represented four times in the sampling population, we estimated the number of pharmacies as one quarter the number of pharmacy weeks.

APPENDIX C
Page 1 of 5

PERCENTAGE DIFFERENCE BETWEEN PART D PAYMENTS AND DRUG ACQUISITION COSTS FOR EACH SELECTED PHARMACY

Sample Item	Number of Prescriptions Analyzed ¹	All Drugs			Brand-Name Drugs			Generic Drugs		
		Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates	Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates	Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates
9	13	55.1%	54.6%	0.5%	- ²	6.6%	-	158.9%	155.8%	3.1%
81	17	-	48.4	-	-	8.7	-	-	263.5	-
33	17	40.9	38.2	2.7	8.4%	8.1	0.3%	86.7	79.2	7.5
46	158	-	35.3	-	-	7.2	-	-	103.8	-
94	8	30.0	29.9	0.1	8.4	8.2	0.2	-	191.7	-
73	59	30.2	28.6	1.6	-	13.4	-	119.0	103.7	15.3
2	91	-	27.0	-	-	11.6	-	-	83.8	-
14	71	-	26.8	-	-	6.6	-	-	124.7	-
32	57	27.4	26.6	0.8	-	6.4	-	66.6	63.7	2.9
51	96	25.5	25.1	0.4	-	14.0	-	170.7	159.9	10.8
31	269	-	24.7	-	-	5.2	-	-	75.5	-
85	79	30.6	24.5	6.1	5.4	5.3	0.1	70.4	51.6	18.8
15	242	25.2	24.3	0.9	8.8	7.7	1.1	-	66.4	-
44	17	-	23.2	-	-	8.4	-	-	44.5	-
92	321	25.8	22.6	3.2	8.3	6.7	1.6	84.7	73.8	10.9
36	151	22.7	22.0	0.7	9.6	9.0	0.6	67.2	66.4	0.8
68	225	23.7	21.8	1.9	8.8	7.3	1.5	103.5	98.3	5.2
60	62	22.2	21.6	0.6	-	9.9	-	92.2	86.4	5.8
87	306	22.5	21.4	1.1	9.9	8.8	1.1	55.2	53.9	1.3
77	81	21.2	20.8	0.4	8.6	8.2	0.4	51.6	51.1	0.5
8	466	22.5	20.7	1.8	-	10.3	-	79.7	66.2	13.5
41	549	20.6	20.2	0.4	-	10.5	-	69.8	66.5	3.3
4	52	-	20.1	-	-	11.5	-	-	64.0	-
95	53	23.5	20.0	3.5	9.4	9.3	0.1	68.4	50.8	17.6

¹See Appendix E for a breakdown of the number of brand-name and generic drugs analyzed.

²A dash indicates that the sampled pharmacy did not receive a rebate.

APPENDIX C
Page 2 of 5

Sample Item	Number of Prescrip-tions Analyzed	All Drugs			Brand-Name Drugs			Generic Drugs		
		Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates	Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates	Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates
57	193	23.3	19.6	3.7	14.1	11.8	2.3	93.8	74.4	19.4
43	261	22.5	19.6	2.9	-	6.6	-	87.1	66.6	20.5
22	242	19.8	19.6	0.2	6.0	5.8	0.2	81.1	80.7	0.4
72	261	-	19.3	-	-	8.4	-	-	69.8	-
47	49	19.9	19.3	0.6	-	9.3	-	97.0	88.4	8.6
49	46	-	18.8	-	-	12.8	-	-	110.7	-
64	169	-	18.8	-	-	6.7	-	-	75.6	-
30	100	-	18.7	-	-	7.1	-	-	32.8	-
37	153	-	18.3	-	-	10.8	-	-	69.7	-
69	40	18.9	18.3	0.6	-	11.7	-	69.5	62.8	6.7
48	46	-	18.1	-	-	8.8	-	-	41.0	-
71	148	-	18.1	-	-	6.7	-	-	84.6	-
20	37	-	17.7	-	-	7.6	-	-	50.1	-
84	241	-	17.3	-	-	9.3	-	-	69.2	-
93	145	17.4	17.3	0.1	-	9.3	-	68.9	68.5	0.4
79	160	17.2 ³	17.2	0.0	-	10.4	-	51.9	51.6	0.3
90	92	19.8	17.0	2.8	9.0	8.8	0.2	67.2	48.5	18.7
19	368	-	16.9	-	-	7.3	-	-	51.6	-
54	3	-	16.9	-	-	12.1	-	-	163.2	-
66	403	-	16.8	-	-	7.9	-	-	48.0	-
35	368	17.9	16.7	1.2	-	9.0	-	76.4	64.1	12.3
86	104	16.8	16.7	0.1	-	2.9	-	69.5	68.7	0.8
39	214	17.6	16.2	1.4	-	8.5	-	68.9	57.0	11.9

³This pharmacy received a rebate on a few drugs during the selected pharmacy week, but the percentage was not affected.

APPENDIX C
Page 3 of 5

Sample Item	Number of Prescriptions Analyzed	All Drugs			Brand-Name Drugs			Generic Drugs		
		Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates	Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates	Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates
7	127	18.2	16.1	2.1	11.7 ³	11.7	0.0	47.4	34.4	13.0
34	620	16.4	16.0	0.4	-	8.3	-	75.8	70.6	5.2
97	51	-	15.9	-	-	7.4	-	-	54.4	-
74	41	16.4	15.7	0.7	-	6.9	-	59.7	55.0	4.7
45	84	-	15.2	-	-	5.3	-	-	109.7	-
56	52	-	15.2	-	-	7.5	-	-	70.3	-
75	215	18.4	15.2	3.2	9.1	6.6	2.5	85.2	74.9	10.3
67	175	15.3	15.1	0.2	-	6.0	-	59.1	57.7	1.4
18	67	17.7	15.1	2.6	5.9	5.8	0.1	47.3	36.7	10.6
58	76	15.3	14.9	0.4	9.0	8.7	0.3	69.3	68.8	0.5
38	113	-	14.8	-	-	7.5	-	-	60.2	-
59	274	18.1	14.8	3.3	8.6	8.5	0.1	52.2	35.2	17.0
16	201	14.9	14.7	0.2	9.6	9.4	0.2	-	65.9	-
1	495	15.0	14.6	0.4	-	8.6	-	41.6	39.1	2.5
83	99	16.6	14.5	2.1	9.9	9.0	0.9	44.2	35.9	8.3
11	212	14.6	14.4	0.2	6.1 ³	6.1	0.0	118.8	115.9	2.9
6	230	14.8	14.4	0.4	-	6.2	-	59.2	56.2	3.0
62	645	-	14.2	-	-	8.0	-	-	72.7	-
13	69	-	14.1	-	-	7.2	-	-	73.6	-
80	88	-	13.9	-	-	8.8	-	-	54.5	-
78	11	-	13.8	-	-	7.4	-	-	27.3	-
82	46	-	13.7	-	-	9.7	-	-	64.9	-
29	56	14.2	13.7	0.5	11.5	11.0	0.5	42.7	42.6	0.1

APPENDIX C
Page 4 of 5

Sample Item	Number of Prescriptions Analyzed	All Drugs			Brand-Name Drugs			Generic Drugs		
		Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates	Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates	Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates
63	200	14.3	13.6	0.7	-	6.5	-	61.9	54.9	7.0
27	35	14.0	13.6	0.4	9.6	9.2	0.4	22.4	22.0	0.4
17	63	14.2	13.1	1.1	10.2	9.1	1.1	97.8	95.9	1.9
98	83	14.9	12.9	2.0	-	9.0	-	55.1	36.3	18.8
52	79	13.7	12.9	0.8	8.0	7.3	0.7	34.6	33.6	1.0
99	656	-	12.8	-	-	4.6	-	-	58.1	-
61	140	13.4	12.8	0.6	-	6.6	-	81.0	72.0	9.0
50	380	12.5 ³	12.5	0.0	-	5.1	-	79.4	79.3	0.1
96	512	12.7	12.3	0.4	-	6.7	-	92.4	81.7	10.7
53	108	14.7	12.2	2.5	5.9	5.7	0.2	59.3	41.6	17.7
91	157	12.5	12.2	0.3	6.3	6.0	0.3	47.6	47.2	0.4
55	7	-	12.1	-	-	8.4	-	-	83.6	-
40	224	13.1	12.1	1.0	7.6	6.5	1.1	-	68.4	-
21	378	12.3	12.1	0.2	-	6.1	-	98.7	93.3	5.4
23	845	12.2	12.1	0.1	-	6.1	-	72.0	70.3	1.7
5	774	12.9	11.9	1.0	-	7.4	-	66.8	52.6	14.2
76	669	-	11.6	-	-	8.4	-	-	56.8	-
70	16	-	10.9	-	-	8.5	-	-	13.3	-
89	859	14.4	10.7	3.7	6.9	3.2	3.7	73.0	70.6	2.4
25	117	11.4	10.6	0.8	4.8	4.5	0.3	69.1	62.3	6.8
3	188	11.1	10.0	1.1	6.7	5.6	1.1	38.6	37.2	1.4
24	41	10.8	8.9	1.9	9.0	7.0	2.0	-	45.3	-
26	122	9.8	8.5	1.3	6.7	5.3	1.4	-	96.4	-

APPENDIX C
Page 5 of 5

Sample Item	Number of Prescriptions Analyzed	All Drugs			Brand-Name Drugs			Generic Drugs		
		Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates	Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates	Percentage Difference Including Rebates	Percentage Difference Excluding Rebates	Impact of Rebates
65	267	-	7.9	-	-	4.7	-	-	36.5	-
28	116	-	7.4	-	-	1.3	-	-	68.1	-
42	100	10.1	7.2	2.9	8.0	7.7	0.3	20.0	5.0	15.0
10	13	6.8	5.9	0.9	-	3.0	-	34.5	25.1	9.4
88	242	-	5.2	-	-	(3.1) ⁴	-	-	65.5	-
12	123	-	1.9	-	-	(4.5)	-	-	42.5	-

⁴Amounts shown in parentheses represent an average cost above the Part D payment.

AVERAGE DOLLAR DIFFERENCE BETWEEN PART D PAYMENTS AND DRUG ACQUISITION COSTS PER PRESCRIPTION FOR EACH SELECTED PHARMACY

Sample Item	Number of Prescriptions Analyzed ¹	All Drugs			Brand-Name Drugs			Generic Drugs		
		Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates	Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates	Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates
81	17	- ²	\$61.14	-	-	\$39.25	-	-	\$67.87	-
55	7	-	26.27	-	-	60.96	-	-	12.40	-
26	122	\$18.70	16.32	\$2.38	\$27.78	22.41	\$5.37	-	11.49	-
51	96	16.44	16.24	0.20	-	20.08	-	\$13.84	13.50	\$0.34
17	63	16.87	15.71	1.16	25.19	22.80	2.39	9.77	9.67	0.10
49	46	-	13.91	-	-	15.08	-	-	12.24	-
2	91	-	12.74	-	-	13.09	-	-	12.56	-
94	8	12.59	12.54	0.05	4.95	4.86	0.09	-	25.32	-
36	151	12.68	12.36	0.32	10.13	9.48	0.65	14.46	14.37	0.09
9	13	12.22	12.13	0.09	-	4.32	-	14.59	14.48	0.11
80	88	-	11.60	-	-	19.64	-	-	7.65	-
31	269	-	11.40	-	-	6.24	-	-	13.36	-
32	57	11.63	11.36	0.27	-	5.27	-	14.80	14.41	0.39
79	160	11.36	11.33	0.03	-	14.33	-	9.38	9.34	0.04
60	62	11.33	11.10	0.23	-	11.61	-	11.17	10.80	0.37
46	158	-	10.91	-	-	5.11	-	-	13.52	-
83	99	11.78	10.48	1.30	15.10	13.88	1.22	9.79	8.45	1.34
73	59	10.87	10.44	0.43	-	13.33	-	9.80	9.18	0.62
14	71	-	10.11	-	-	6.36	-	-	11.91	-
16	201	10.09	9.94	0.15	11.26	10.97	0.29	-	8.81	-
47	49	10.08	9.80	0.28	-	8.09	-	12.15	11.58	0.57
38	113	-	9.79	-	-	8.21	-	-	11.51	-

¹See Appendix E for a breakdown of the number of brand-name and generic drugs analyzed.²A dash indicates that the sampled pharmacy did not receive a rebate.

APPENDIX D
Page 2 of 5

Sample Item	Number of Prescriptions Analyzed	All Drugs			Brand-Name Drugs			Generic Drugs		
		Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates	Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates	Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates
82	46	-	9.74	-	-	11.70	-	-	7.40	-
43	261	10.76	9.59	1.17	-	8.33	-	11.81	10.13	1.68
68	225	10.21	9.52	0.69	8.71	7.31	1.40	11.07	10.78	0.29
74	41	9.69	9.37	0.32	-	8.62	-	10.37	9.85	0.52
57	193	10.80	9.37	1.43	13.43	11.48	1.95	8.82	7.77	1.05
98	83	10.57	9.31	1.26	-	10.92	-	10.21	7.66	2.55
11	212	9.36	9.28	0.08	6.62	6.59	0.03	12.67	12.52	0.15
58	76	9.46	9.24	0.22	9.73	9.35	0.38	9.17	9.13	0.04
69	40	9.47	9.21	0.26	-	17.04	-	6.23	5.86	0.37
87	306	9.59	9.18	0.41	10.14	9.11	1.03	9.35	9.22	0.13
84	241	-	9.02	-	-	12.89	-	-	7.14	-
29	56	9.03	8.76	0.27	10.42	10.02	0.40	6.52	6.51	0.01
33	17	9.10	8.68	0.42	3.72	3.58	0.14	11.35	10.80	0.55
8	466	9.13	8.55	0.58	-	8.32	-	9.70	8.72	0.98
62	645	-	8.51	-	-	6.95	-	-	11.09	-
97	51	-	8.51	-	-	8.73	-	-	8.37	-
45	84	-	8.15	-	-	4.76	-	-	12.07	-
67	175	8.22	8.13	0.09	-	6.49	-	9.43	9.28	0.15
7	127	9.00	8.12	0.88	11.00	10.95	0.05	7.47	5.95	1.52
35	368	8.56	8.09	0.47	-	10.23	-	7.61	6.86	0.75
75	215	9.45	8.03	1.42	8.79	6.55	2.24	10.04	9.35	0.69
65	267	-	8.00	-	-	9.32	-	-	6.87	-

APPENDIX D
Page 3 of 5

Sample Item	Number of Prescriptions Analyzed	All Drugs			Brand-Name Drugs			Generic Drugs		
		Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates	Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates	Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates
93	145	8.02	8.00	0.02	-	9.45	-	7.09	7.07	0.02
15	242	8.21	7.98	0.23	6.97	6.17	0.80	-	8.73	-
52	79	8.25	7.81	0.44	10.31	9.38	0.93	7.05	6.90	0.15
39	214	8.29	7.76	0.53	-	9.67	-	7.55	6.72	0.83
95	53	8.82	7.73	1.09	8.39	8.25	0.14	9.02	7.48	1.54
37	153	-	7.68	-	-	7.53	-	-	7.84	-
54	3	-	7.68	-	-	7.97	-	-	7.10	-
72	261	-	7.68	-	-	7.07	-	-	8.07	-
76	669	-	7.63	-	-	8.02	-	-	6.92	-
34	620	7.76	7.59	0.17	-	8.61	-	7.19	6.90	0.29
77	81	7.69	7.57	0.12	6.86	6.60	0.26	8.08	8.03	0.05
92	321	8.38	7.54	0.84	6.81	5.56	1.25	9.08	8.40	0.68
21	378	7.61	7.49	0.12	-	6.73	-	8.58	8.33	0.25
23	845	7.52	7.46	0.06	-	6.66	-	8.43	8.31	0.12
71	148	-	7.33	-	-	5.36	-	-	8.83	-
61	140	7.54	7.27	0.27	-	8.08	-	7.14	6.68	0.46
64	169	-	7.18	-	-	6.33	-	-	7.60	-
27	35	7.33	7.15	0.18	10.47	10.08	0.39	5.90	5.80	0.10
19	368	-	7.12	-	-	6.59	-	-	7.43	-
1	495	7.28	7.11	0.17	-	9.29	-	6.15	5.88	0.27
5	774	7.49	7.00	0.49	-	6.71	-	8.61	7.42	1.19
6	230	7.06	6.91	0.15	-	6.18	-	7.66	7.41	0.25

Sample Item	Number of Prescriptions Analyzed	All Drugs			Brand-Name Drugs			Generic Drugs		
		Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates	Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates	Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates
70	16	-	6.87	-	-	7.00	-	-	6.79	-
91	157	6.98	6.84	0.14	5.72	5.49	0.23	8.35	8.31	0.04
41	549	6.95	6.83	0.12	-	8.25	-	6.23	6.05	0.18
25	117	7.24	6.77	0.47	6.29	5.83	0.46	7.97	7.49	0.48
13	69	-	6.71	-	-	6.82	-	-	6.63	-
53	108	7.89	6.71	1.18	7.28	7.09	0.19	8.24	6.50	1.74
20	37	-	6.69	-	-	5.09	-	-	7.91	-
24	41	7.74	6.49	1.25	10.91	8.68	2.23	-	3.68	-
63	200	6.76	6.45	0.31	-	6.05	-	7.29	6.76	0.53
22	242	6.50	6.43	0.07	5.39	5.19	0.20	6.97	6.95	0.02
40	224	6.88	6.40	0.48	8.77	7.60	1.17	-	5.57	-
4	52	-	6.35	-	-	12.05	-	-	4.45	-
85	79	7.45	6.27	1.18	4.89	4.78	0.11	7.96	6.56	1.40
66	403	-	6.20	-	-	6.50	-	-	6.04	-
96	512	6.20	5.99	0.21	-	5.93	-	6.48	6.06	0.42
48	46	-	5.92	-	-	7.19	-	-	5.42	-
90	92	6.67	5.84	0.83	7.28	7.16	0.12	6.36	5.18	1.18
99	656	-	5.73	-	-	4.29	-	-	6.74	-
56	52	-	5.70	-	-	6.38	-	-	5.26	-
89	859	7.43	5.70	1.73	7.46	3.59	3.87	7.41	7.26	0.15
50	380	5.69 ³	5.69	0.00	-	4.75	-	6.44	6.44	0.00

³This pharmacy received a rebate on a few drugs during the selected pharmacy week, but the percentage was not affected.

Sample Item	Number of Prescriptions Analyzed	All Drugs			Brand-Name Drugs			Generic Drugs		
		Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates	Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates	Dollar Difference Including Rebates	Dollar Difference Excluding Rebates	Impact of Rebates
44	17	-	5.58	-	-	6.77	-	-	5.32	-
3	188	6.05	5.50	0.55	6.09	5.18	0.91	6.01	5.85	0.16
86	104	5.06	5.04	0.02	-	2.39	-	6.14	6.11	0.03
59	274	5.94	5.00	0.94	7.68	7.55	0.13	5.23	3.97	1.26
78	11	-	4.98	-	-	5.00	-	-	4.97	-
18	67	5.69	4.95	0.74	4.14	4.03	0.11	6.45	5.40	1.05
28	116	-	4.87	-	-	1.58	-	-	8.05	-
42	100	6.31	4.59	1.72	7.79	7.49	0.30	4.65	1.32	3.33
30	100	-	4.40	-	-	4.38	-	-	4.41	-
10	13	3.64	3.15	0.49	-	3.01	-	4.17	3.26	0.91
88	242	-	1.62	-	-	(3.12) ⁴	-	-	3.44	-
12	123	-	0.62	-	-	(3.72)	-	-	2.95	-

⁴Amounts shown in parentheses represent an average cost above the Part D payment.

BREAKDOWN OF PRESCRIPTIONS ANALYZED

Sample Item	All Drugs			Brand-Name Drugs			Generic Drugs		
	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs ¹	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs
89	859	831	28	365	350	15	494	481	13
23	845	807	38	437	410	27	408	397	11
5	774	749	25	454	454	0	320	295	25
76	669	643	26	431	421	10	238	222	16
99	656	636	20	269	264	5	387	372	15
62	645	638	7	401	400	1	244	238	6
34	620	611	9	250	248	2	370	363	7
41	549	532	17	195	190	5	354	342	12
96	512	501	11	262	257	5	250	244	6
1	495	476	19	179	179	0	316	297	19
8	466	456	10	194	192	2	272	264	8
66	403	400	3	140	139	1	263	261	2
50	380	374	6	169	167	2	211	207	4
21	378	369	9	198	195	3	180	174	6
19	368	354	14	134	131	3	234	223	11
35	368	365	3	134	133	1	234	232	2
92	321	318	3	98	98	0	223	220	3
87	306	304	2	92	91	1	214	213	1
59	274	268	6	79	78	1	195	190	5
31	269	259	10	74	69	5	195	190	5
65	267	255	12	123	122	1	144	133	11
43	261	260	1	79	78	1	182	182	0
72	261	255	6	101	100	1	160	155	5
15	242	240	2	71	71	0	171	169	2
22	242	235	7	72	66	6	170	169	1

¹Payments equaled costs for nine prescriptions (two brand-name and seven generic prescriptions).

APPENDIX E
Page 2 of 4

Sample Item	All Drugs			Brand-Name Drugs			Generic Drugs		
	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs
88	242	172	70	67	9	58	175	163	12
84	241	234	7	79	79	0	162	155	7
6	230	220	10	93	90	3	137	130	7
68	225	216	9	82	79	3	143	137	6
40	224	215	9	92	91	1	132	124	8
75	215	210	5	101	100	1	114	110	4
39	214	210	4	75	75	0	139	135	4
11	212	206	6	116	112	4	96	94	2
16	201	196	5	105	103	2	96	93	3
63	200	192	8	87	84	3	113	108	5
57	193	189	4	83	83	0	110	106	4
3	188	179	9	97	97	0	91	82	9
67	175	167	8	72	71	1	103	96	7
64	169	164	5	56	55	1	113	109	4
79	160	157	3	64	64	0	96	93	3
46	158	155	3	49	48	1	109	107	2
91	157	144	13	82	76	6	75	68	7
37	153	152	1	80	80	0	73	72	1
36	151	146	5	62	58	4	89	88	1
71	148	147	1	64	63	1	84	84	0
93	145	143	2	57	57	0	88	86	2
61	140	138	2	59	59	0	81	79	2
7	127	123	4	55	53	2	72	70	2
12	123	74	49	43	3	40	80	71	9
26	122	120	2	54	53	1	68	67	1

APPENDIX E
Page 3 of 4

Sample Item	All Drugs			Brand-Name Drugs			Generic Drugs		
	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs
25	117	112	5	51	49	2	66	63	3
28	116	110	6	57	53	4	59	57	2
38	113	109	4	59	58	1	54	51	3
53	108	107	1	39	38	1	69	69	0
86	104	101	3	30	29	1	74	72	2
30	100	89	11	21	18	3	79	71	8
42	100	97	3	53	53	0	47	44	3
83	99	99	0	37	37	0	62	62	0
51	96	95	1	40	40	0	56	55	1
90	92	90	2	31	31	0	61	59	2
2	91	90	1	30	29	1	61	61	0
80	88	87	1	29	29	0	59	58	1
45	84	82	2	45	43	2	39	39	0
98	83	82	1	42	41	1	41	41	0
77	81	79	2	26	26	0	55	53	2
52	79	74	5	29	28	1	50	46	4
85	79	78	1	13	13	0	66	65	1
58	76	75	1	39	39	0	37	36	1
14	71	69	2	23	21	2	48	48	0
13	69	69	0	31	31	0	38	38	0
18	67	67	0	22	22	0	45	45	0
17	63	56	7	29	26	3	34	30	4
60	62	62	0	23	23	0	39	39	0
73	59	59	0	18	18	0	41	41	0
32	57	55	2	19	19	0	38	36	2

APPENDIX E
Page 4 of 4

Sample Item	All Drugs			Brand-Name Drugs			Generic Drugs		
	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs	Number of Prescriptions Analyzed	Number of Prescriptions for Which Payments > Costs	Number of Prescriptions for Which Payments ≤ Costs
29	56	55	1	36	36	0	20	19	1
95	53	53	0	17	17	0	36	36	0
4	52	51	1	13	13	0	39	38	1
56	52	50	2	20	20	0	32	30	2
97	51	49	2	19	19	0	32	30	2
47	49	49	0	25	25	0	24	24	0
48	46	45	1	13	12	1	33	33	0
49	46	45	1	27	27	0	19	18	1
82	46	46	0	25	25	0	21	21	0
24	41	40	1	23	23	0	18	17	1
74	41	41	0	16	16	0	25	25	0
69	40	39	1	12	12	0	28	27	1
20	37	36	1	16	16	0	21	20	1
27	35	32	3	11	11	0	24	21	3
33	17	17	0	5	5	0	12	12	0
44	17	16	1	3	3	0	14	13	1
81	17	17	0	4	4	0	13	13	0
70	16	15	1	6	6	0	10	9	1
9	13	13	0	3	3	0	10	10	0
10	13	10	3	6	4	2	7	6	1
78	11	10	1	4	4	0	7	6	1
94	8	8	0	5	5	0	3	3	0
55	7	7	0	2	2	0	5	5	0
54	3	3	0	2	2	0	1	1	0
Total	18,864	18,245	619	8,024	7,769	255	10,840	10,476	364

APPENDIX F

Page 1 of 2

SELECTED PHARMACIES' AVERAGE PART D DISPENSING FEES

Sample Item	Average Dispensing Fee for All Drugs	Average Dispensing Fee for Brand-Name Drugs	Average Dispensing Fee for Generic Drugs	Sample Item	Average Dispensing Fee for All Drugs	Average Dispensing Fee for Brand-Name Drugs	Average Dispensing Fee for Generic Drugs
30	\$4.84	\$2.68	\$5.41	70	\$2.09	\$1.92	\$2.20
29	3.93	3.89	4.00	39	2.08	1.88	2.19
4	3.88	3.35	4.06	77	2.05	2.08	2.04
93	3.87	3.79	3.93	95	2.05	1.82	2.15
74	3.66	3.28	3.90	3	2.04	1.83	2.26
87	3.50	3.21	3.62	16	2.04	1.95	2.14
48	3.44	2.85	3.67	47	2.04	2.00	2.08
76	3.38	3.29	3.53	69	2.03	1.96	2.05
2	3.34	3.61	3.21	7	2.01	1.92	2.07
6	3.25	3.06	3.38	86	2.01	1.77	2.11
10	3.23	3.00	3.43	78	2.00	1.75	2.14
1	3.21	2.92	3.36	94	2.00	2.00	2.00
8	3.16	2.91	3.35	14	1.99	1.84	2.06
37	3.03	3.32	2.71	51	1.97	1.91	2.02
17	2.93	2.18	3.57	75	1.97	1.92	2.00
66	2.85	2.67	2.94	53	1.96	1.75	2.08
35	2.82	2.67	2.91	55	1.96	1.88	2.00
84	2.78	2.62	2.86	82	1.96	1.91	2.02
41	2.75	2.74	2.76	20	1.95	1.89	2.00
72	2.72	2.29	2.99	90	1.95	1.86	2.00
54	2.67	3.00	2.00	34	1.93	1.86	1.97
80	2.58	2.34	2.69	67	1.93	1.87	1.98
99	2.50	2.38	2.58	96	1.93	1.74	2.13
22	2.49	2.39	2.54	71	1.92	1.76	2.05
43	2.45	2.24	2.54	27	1.91	1.93	1.91
73	2.43	2.08	2.58	45	1.91	1.86	1.96
18	2.40	2.20	2.49	62	1.89	1.76	2.10
42	2.39	2.29	2.50	83	1.89	1.71	2.00
92	2.39	2.20	2.48	97	1.89	1.68	2.01
24	2.37	2.26	2.50	23	1.88	1.70	2.08
88	2.36	2.01	2.49	57	1.88	1.70	2.02
12	2.33	2.02	2.50	61	1.87	1.69	2.00
15	2.31	2.21	2.35	13	1.86	1.60	2.06
59	2.31	2.23	2.35	21	1.86	1.67	2.06
36	2.29	2.25	2.33	40	1.86	1.65	2.01
9	2.27	2.00	2.35	19	1.85	1.65	1.97
58	2.27	2.22	2.32	33	1.85	1.50	2.00
60	2.26	1.96	2.44	31	1.84	1.61	1.93
85	2.25	1.89	2.32	52	1.84	1.67	1.93
49	2.22	2.19	2.26	28	1.83	1.65	2.00
64	2.14	2.33	2.04	50	1.83	1.63	1.99

APPENDIX F

Page 2 of 2

Sample Item	Average Dispensing Fee for All Drugs	Average Dispensing Fee for Brand-Name Drugs	Average Dispensing Fee for Generic Drugs
79	\$1.83	\$1.78	\$1.87
68	1.82	1.50	2.00
65	1.81	1.78	1.84
25	1.80	1.75	1.83
38	1.79	1.59	2.02
44	1.78	1.75	1.79
89	1.78	1.72	1.83
11	1.77	1.68	1.88
5	1.76	1.61	1.98
56	1.74	1.75	1.73
91	1.72	1.66	1.79
32	1.70	1.61	1.75
98	1.70	1.79	1.62
63	1.67	1.52	1.79
46	1.49	1.49	1.49
81	1.41	1.50	1.38
26	1.40	1.28	1.50

APPENDIX G

Page 1 of 2



DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

Office of the Administrator
Washington, DC 20201

DATE: OCT 04 2007

TO: Daniel R. Levinson
Inspector General

FROM: Kerry Weems
Kerry Weems
Acting Administrator

SUBJECT: Office of Inspector General (OIG) Draft Report: "Review of the Relationship between Medicare Part D Payments to Local, Community Pharmacies and the Pharmacies' Drug Acquisition Costs" (A-06-07-00107)

Thank you for the opportunity to review and comment on the above OIG draft report evaluating community pharmacy ingredient cost payments in relation to acquisition costs in the Part D program. We are interested in and pleased by the findings of the OIG report that the private market competitive contracting model in Part D provides margins to community pharmacies with respect to their acquisition costs.

OIG Recommendation

The OIG recommends that Congress and the Centers for Medicare & Medicaid Services (CMS) consider the results of its review, including the data provided, in any deliberations regarding Medicare Part D reimbursement.

CMS Response

The CMS concurs with the recommendation. In general, we concur with the findings of this study. The report found that pharmacies almost always acquired drugs for less than the reimbursement amounts. Although we do not collect comparable data, this observation is expected as it is one method for pharmacies to support the expense of dispensing costs. These findings are also consistent with our experience with the Part D program in that we do not receive complaints from pharmacies with respect to negotiated prices not covering acquisition costs.

The report also found that the percentage differences between Part D payments and drug acquisition costs were more than nine times higher for generic drugs than for brand-name drugs. Clinically appropriate generic prescribing is one of the key ways in which the Part D program is able to provide high quality coverage at a reasonable cost to both beneficiaries and the government. We fully encourage the use of generic drugs since their use provides good value to both the beneficiary and the taxpayer, and we note that incentives are aligned to encourage promotion of generics by community pharmacies.

APPENDIX G

Page 2 of 2

Page 2 – Daniel R. Levinson

The study found that Group Purchasing Organization (GPO) members appear to have received greater rebates compared to non-members. This trend is also expected as purchasing at greater volumes drives down drug acquisition costs, which is one of the reasons why GPOs formed. We were pleased to note that your comparison of rural and non-rural pharmacies showed that payments from Part D plans were nearly identical, which demonstrates that Part D plans are not discriminating between rural and urban pharmacies.

We do have a few methodological questions regarding this report:

- Various results are provided including or excluding rebates. It is unclear how pharmacies' rebate estimates were attributed to the audited Part D claims. The report also did not discuss how the use of self-reported un-audited rebate data may impact its margin estimates. Specifically, if rebates were under-reported, then the actual margins may be higher than those presented in the paper.
- We also note that the methodology for determining drug acquisition costs is unclear when referring to using costs of a drug with the same clinical formulation identification [page 4 - 4th bullet, item (3)].
- The methodology section does not describe the auditing process that was used to calculate average Part D dispensing fees. This omission presents a significant limitation in understanding the estimate.

Our primary concern with this report remains the inclusion of self-reported numbers on dispensing costs. Although the draft report addresses the subject of estimated dispensing costs in an "Other Matters" section following the main findings and recommendation, and is not included in the Executive Summary, we are disappointed in OIG's decision to include these estimates in the report at all. We believe the inclusion of these unvalidated and potentially non-representative figures may obscure the ongoing Medicare Part D pharmacy debate.

The report specifically states that auditing dispensing costs was beyond the scope of this project. However, despite this disclaimer, the report goes on to provide an estimate of dispensing costs based on selected, self-reported data and also cites estimates derived from two pharmacy industry sponsored studies. While the report acknowledges that the accuracy of the self-reported data or the underlying data from the two referenced studies was not reviewed, we strongly suggest that these caveats are insufficient safeguards against readers taking these numbers at face value – especially given the apparent exact correspondence between the calculated margin between Part D payments and drug acquisition costs including rebates (\$9.13) and the "average" selectively reported and estimated cost to dispense (\$9.13).

Thank you for your efforts to help gain an understanding of community pharmacy payment rates in relation to acquisition costs in the Medicare Part D program.